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ABSTRACT

The gains of economic recovery have been unevenly distributed to benefit the rich much more than the poor. According to Census Bureau data, poverty, especially among children, is significantly higher than five years ago. Poverty has worsened despite decreased unemployment because of widening gaps between rich and poor. Even modest changes in distribution of income can result in large increases in poverty. Hispanics experienced the greatest poverty increase in 1985. If trends continue, they will surpass Blacks as the poorest minority within the next few years. Another trend of recent years is increasing numbers of working poor, attributable to more low-wage jobs and a minimum wage unchanged since 1981. Finally, Census data show the nation's poor farther below the poverty line than at any time since the early 1960s except for the recession years 1982 and 1983. This report includes tables and graphs of statistical information. (LHW)

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ECONOMIC RECOVERY FAILS TO REDUCE POVERTY RATES TO PRE-RECESSION LEVELS GAPS WIDEN FURTHER BETWEEN RICH AND POOR

New poverty data for 1985 issued in late August by the Census Bureau show that economic recovery has failed to reduce poverty to pre-recession levels, in part because the gains of the recovery have been unevenly distributed and have benefited the rich much more than the poor.

The Census data show that 14 perent of Americans (about one in every seven) were poor in 1985, a slight decrease from the 14.4 percent poverty rate in 1984. However, the 14 percent poverty rate for 1985 is significantly higher than the poverty rates for 1977 and 1980, years in which the unemployment rate was at about the same level as in 1985. Poverty appears stuck at a higher level than it was only a half decade ago.

In 1985, 33.1 million people were poor. In 1980, however, nearly four million fewer Americans (29.3 million) were poor, when the poverty rate stood at 13 percent. In 1977, eight million fewer Americans were poor, and the poverty rate was 11.6 percent.

Poverty among children rose especially rapidly during the 1977 to 1985 period. In 1985, 20.5 percent of children -- more than one in every five -- were poor. In 1977 and 1980, the poverty rate for children stood at 16 percent and 18.3 percent, respectively.

The poverty line in 1985 was $10,989 for a family of four.

Widening Gaps Between the Rich and the Poor

A major reason for the failure of poverty to follow unemployment rates back down to 1977 and 1980 levels is the growing inequality of income and widening gaps between rich and poor.

The Census data show that from 1980 to 1985, the typical (or median) family in the poorest 40 percent of the population saw its income decline by $236, after adjusting for inflation. During the same five-year period, the typical family in the top 40 percent of the population saw its income rise $2,915, while the typical family in the richest 10 percent saw its income increase by $7,130.

The Census data also show that in 1985 the gap between the richest 40 percent of all families and the poorest 40 percent tied with 1984 for the widest gap ever recorded since the Census Bureau began collecting these data in 1947.

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The data show that the poorest 20 percent of all families received only 4.6 percent of national income in 1985; the poorest 40 percent of all families received just 15.5 percent of the national income. The bottom 60 percent of all families received a total of 32.4 percent of the national income.

By contrast, the top 40 percent took 67.7 percent of the national income in 1985, with the top 20 percent alone receiving 43.5 percent of all income, the highest percentages recorded since 1947.

Research has demonstrated that even modest changes in the distribution of income can result in large increases in poverty, suggesting that this is an important reason why poverty rates remain so much higher than in 1980 and the late 1970's.

The new Census data also indicate that increases in the proportion of female-headed families have relatively little to do with the increases in poverty in recent years.

The Census data show that persons in female-headed families constitute a smaller proportion of the total poverty population today than in 1977, and about the same proportion as in 1980. Only 29 percent of the increase in the poverty population since 1977 came among persons in female-headed families. Other factors, such as growing economic inequality and budget cuts at federal and state levels appear to be more important in explaining the increase in poverty as earlier analyses on this issue conducted at the Urban Institute and the Institute for Research on Poverty have concluded.

Hispanics Fare Worst

The group left behind to the greatest degree by the economic recovery has been Hispanics. The number of Hispanics in poverty climbed by 430,000 in 1985 to 5.2 million, the largest number ever recorded for Hispanics. The Hispanic poverty rate hit 29 percent, about the same level as during the 1982-1983 recession (the Hispanic poverty rate was 29.9 percent in 1982 and 28.0 percent in 1983).

Poverty among Hispanic children climbed by 207,000 in 1985, the only statistically significant change in poverty for any group of children.

The data show virtually no downward movement in poverty rates among Hispanics from the record recession levels of the early 1980's.

If current trends continue, Hispanics will pass blacks in the next few years as the ethnic group with the highest poverty rate in the country. In 1979, the Hispanic poverty rate was 9.2 percentage points below the black rate. It is now only 2.3 percentage points less than the black rate (these issues are explained in more detail in a separate piece analyzing Hispanic income and poverty data).

Increases in the Number of Working Poor

The new Census data also highlight another trend in recent years, the steady increase in the working poor population. The percentage of all poor persons age 15 or over (including elderly and handicapped persons) who work reached 41.5 percent last year, the highest percentage that has been recorded. The working poor population has grown sharply in recent years, in part due to the increasing number of low wage jobs and to the failure of the minimum wage to rise with inflation since January 1981. A four-person family with a member working full-time year-round at the minimum wage fell $4,000 below the poverty line in 1985.

Poor Get Poorer

Finally, the new data show that those who were poor got poorer last year. The income of poor families fell an average of $4,278 below the poverty line in 1985 -- or $121 farther below the poverty line (after adjusting for inflation) than in 1984. The Census data show the poor now fall further below the poverty line than at any time since the early 1960's, with the exception of the recession years of 1982 and 1983.

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POVERTY DATA: 1977, 1980, AND 1985

	1977	1980	1985
Unemployment Rate	7.1%	7.1%	7.2%
Poverty Rate	11.6%	13.0%	14.0%
Number of Persons in Poverty	24,720,000	29,272,000	33,064,000
Child Poverty Rate	16.0%	18.3%	20.5%
Number of Children in Poverty	10,028,000	11,456,000	12,814,000

MEDIAN FAMILY INCOME

	Poorest 40% of All Families	Wealthiest 40% of All Families	Wealthiest 10% Of all Families
	(in constant 1985 dollars)		
1985	$13,192	$48,000	$77,706
1984	12,935	46,916	75,843
1983	12,609	45,350	73,510
1982	12,482	44,571	71,328
1981	12,914	44,305	69,259
1980	13,428	45,085	70,576

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INCOME DISTRIBUTION OF AMERICAN FAMILIES IN 1985

Population Category	% of Total National Income Received
Poorest two-fifths	15.5%
Poorest three-fifths of all families	32.4%
Wealthiest two-fifths of all families	67.7%

Population Category	% of Total National Income Received
Poorest fifth	4.6%
Second fifth	10.9%
Middle fifth	16.9%
Fourth fifth	24.2%
Wealthiest fifth	43.5%
Wealthiest 5 percent	16.7%

Source: Bureau of the Census, Money Income and Poverty Status of Families and Persons in the United States: 1985, August 1986.

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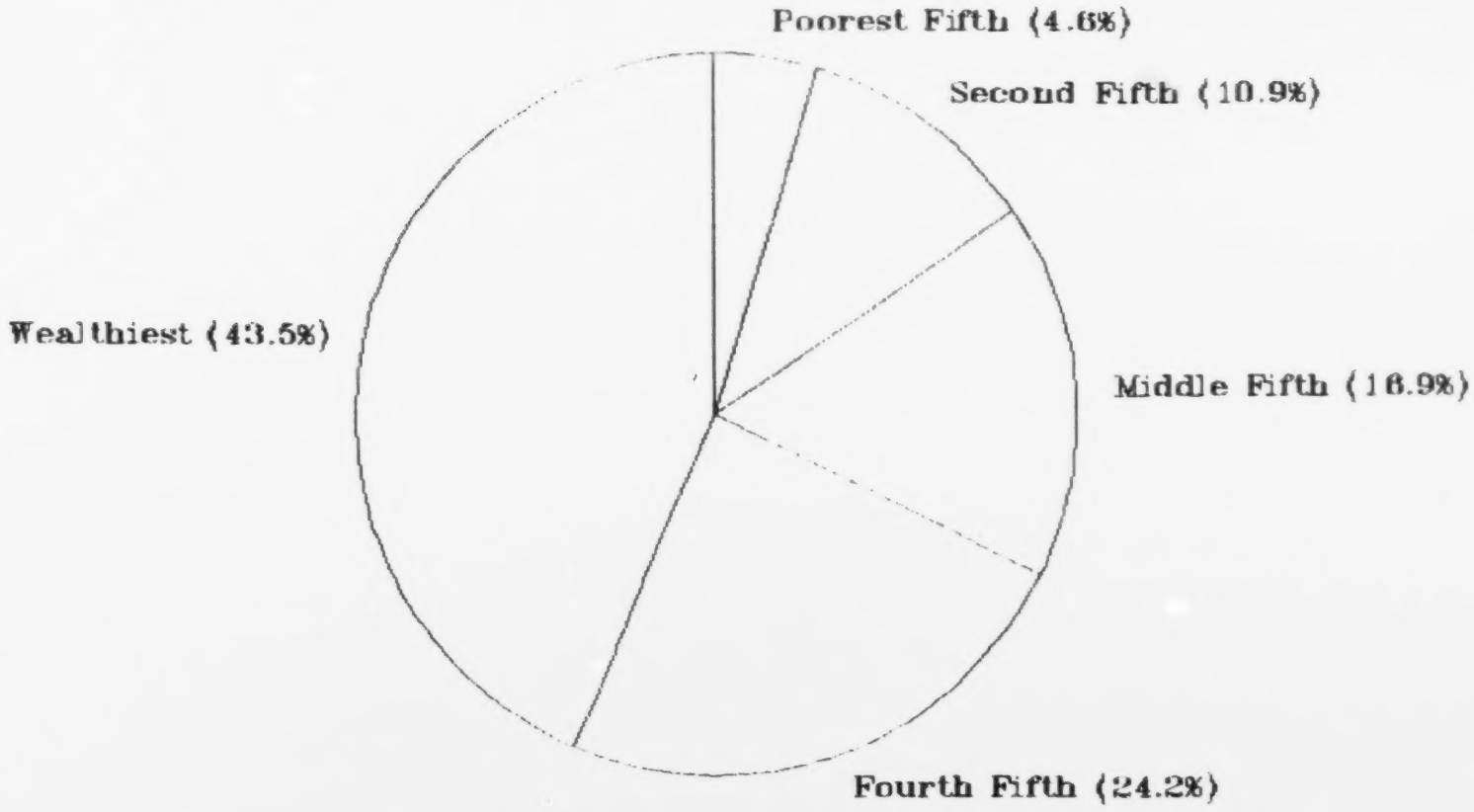
Income Distribution of Families in 1985

Percent of All Income



Change in Median Income, From 1980–85